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DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
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TAGS: ECON EAGR EAIR ECPS EFIN EINV EMIN ENRG EPET ETRD
BEXP, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
FEBRUARY 2 TO FEBRUARY 6, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of February 2-6, 2009, including the following:

-- India Largest Recipient of Worker Remittances
-- Government Anticipates 1.5 million Job-loss by March Due to Global Downturn
-- India's FY2008 Investment and Savings Rates Hit New Highs
-- Pending Economic Legislation
-- IT Industry Export Earnings Likely to Decline
-- Economic Downtown Torpedoes India's Biggest Land Deal
-- Infosys to cut jobs in the US
-- Federal Government Committee Clears West Bengal's Proposal for Chemical Hub Investment

India Largest Recipient of Worker Remittances

¶2. (SBU) Despite the ongoing global recession, India is expected to witness record inward remittances for the second year with early indications suggesting upwards of $40 billion in calendar year 2008, much more beyond the World Bank's projection of $30 billion. According to the Reserve Bank of India, India already received $39.14 billion during the first nine months of 2008, thanks to the Indian diaspora, estimated at 25 million. India mostly gets its remittances from the US, the Gulf Countries and Europe, with the US surpassing the Gulf since the 1990s' boom in IT. India emerged as the number one recipient of worker remittances in 2007, with flows of $27 billion, followed by China with flows of $25.7 billion. Factors responsible for the high growth of remittances in India include the diminishing role of unofficial channels after 9/11, shifting emigration patterns to high-skilled technology jobs, greater competition in the money transfer market and the strength of the Indian economy. A World Bank official noted recently that India's remittance levels in 2009 are expected to remain steady or only dip marginally, ensuring a critical ballast to the country's balance of payments.

Government Anticipates 1.5 million Job-loss by March Due to Global Downturn
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¶3. (U) The global trade slowdown is taking its toll on India, with the government projecting as many as 1.5 million people in the exporting sector losing their jobs by end-March. The Commerce Ministry estimates about 700,000 to 1 million job losses since the global recession began in August 2008. (Note: The Labour Ministry estimates there were 500,000 job losses from October - December. End note.) Commerce Secretary G.K. Pillai stated in an interview to NDTV that if the slowdown, especially in the U.S., Europe and Japan continues, another 500,000 people might be unemployed by March, especially in export-intensive industry units and the retail sector. While exports account for less than 20 per cent of the country's GDP, the sector employs approximately 60.5 million workers. After an impressive average growth of over 30 per cent in the first six months of 2008-09, India's export growth turned negative in the last quarter of 2008. Pillai anticipates that exports could fall far short of the government's original $200-billion export target, and may even elude the revised $170 billion target.

¶4. (SBU) Alarmed by the continuing slowdown in destination markets, the Indian exporting community has repeatedly asked the government for a stimulus package. While the government in the last two months has announced several relief packages with special provisions for the export sector, government officials have signaling that the government is not prepared to come out with further sector-specific concessions. In a meeting with Econoff this week, Commerce Ministry Director of Export-Oriented Units, Mr. T. Sirnidhi, claimed that the government is not able to provide further assistance due to fiscal constraints, despite heavy lobbying by different industry groups. While there are concerns within the government circles about the job losses, Mr. Sirnidhi expressed hope that the export sector might revive in the short run.

India's FY2008 Investment and Savings Rates Hit New Highs
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¶5. (U) The government's Central Statistical Organization's latest data shows that both investments and savings touched record highs of 39 percent and 37.7 percent of GDP in FY 2007-08 as compared to 37 percent and 35.7 percent of GDP in the previous year. The highest increase in investment levels was in the manufacturing sector, followed by the transport, storage and communication sectors. The household sector contributed about 65 percent of total savings, followed by the private sector at 23 percent and the public sector at 12 percent. The higher growth in savings and investment over the past five years resulted in GDP growth averaging 8.8 percent during fiscal years FY 2004-08. (Note: Indian economists estimate that an investment-to-GDP level of 32% sustains an 8-percent growth rate, while investment levels of 36% enable a 9-percent growth rate. End note.)

¶6. (U) However, this fiscal year, both investments and savings are expected to decline, since foreign financing dried up in September and corporate profits were hit by costlier retail financing hitting consumer durable sales. Although public sector investment, which constitutes about 9 percent of GDP may hold, private investment which is about 28.5 percent of GDP will most likely show a fall, due to the rising cost of debt, lower profits and negative cash flows. Government and corporate savings are also likely to decline due to higher revenue deficits on the bank of reduced taxes and increased spending.

¶7. (U) The Prime Minister's Economic Advisory Council, in its mid-term review in January 2009, also projected that the investment rate will be lower due to a combination of financing constraints facing Indian firms, a sharp downturn in investor confidence and general business conditions. The Planning Commission had estimated in 2007 that investment and savings rates would reach 36.7 percent and 34.8 percent of GDP respectively by 2012. These rates were expected to sustain an 8 percent GDP growth each year in the eleventh five year plan (2007-12). India seems to have crossed the projected savings and investment rate for the end of the plan period five years early. The Council says that if the investment rate drops to 32 percent in FY 2009-10, the economy has enough potential to withstand the shocks.

Pending Economic Legislation

¶8. (SBU) The budget session scheduled for February 12-26 - the last of the current government - is not expected to see the introduction of many new bills, although the government will try to clear some of the pending legislation. Over 78 bills are pending, which have either been passed in the upper house, the Rajya Sabha, or the Lok Sabha, the lower house, while some have been referred to the Standing Committees. The key economic bills that Post will be tracking are: the Insurance Bill, which recommends increasing the FDI limit in the sector to 49 percent from the present 26 percent, the Banking Regulation (Amendment) Bill, which seeks to increase the voting rights for foreign stakeholders in private banks to be proportionate to equity levels; amendments to the Prevention of the Money Laundering Act 2002; the Forward Contracts (Regulation) Amendment Bill, and the Pension Fund Regulatory and Development Authority Bill, 2005.

IT Industry Export Earnings Likely to Decline

¶9. (U) The Indian information technology (IT) industry has been growing at an annual rate of 28% to 30% for the past few years. The industry's export earnings posted a growth of 29% for FY 2007-08 totaling $40.4 billion. However, the global economic downturn is also impacting this sector. This week, India's National Association of Software and Service Companies (NASSCOM) projected a decline in revenue growth from software and service exports (IT and business processes outsourcing (BPO)) for the second half of 2008-09 fiscal (Oct 1, 2008 to March 31, 2009). IT and BPO exports growth has been revised with projected growth at 16% to 17% as against an earlier

forecast of 21 to 24%. The banking and financial services sector accounts for almost 40% of revenues for the IT and BPO sector. In the current scenario, companies have either shelved or deferred expansion and investment plans. NASSCOM has revised its figures downwards from the earlier USD 50 billion to USD 47 billion for software exports for FY 2009. The industry group now expects overseas revenues to earn USD 60 to 62 billion by March 2011, a year later than earlier predictions.

¶10. (U) Despite the slowdown, however, NASSCOM strongly believes that the Indian IT industry will remain a net employer in the current fiscal year and will continue to be the fastest growing IT industry in the world. NASSCOM also projects that direct employment in the Indian IT and BPO sectors will reach nearly 2.23 million by 2011 and lead to approximately 8 million indirect jobs.

Economic Downtown Torpedoes India's Biggest Land Deal

¶11. (U) In March of 2008, after a hard fought battle against larger rivals, realty entity Business Parks and Town Planners (BPTP) purchased a ninety-five acre commercial plot in Noida for approximately USD 1.2 billion, making it India's biggest and most expensive land deal. Less than a year later, BPTP seeks to surrender the land because it cannot complete payment on the transaction. So far, BPTP has paid about USD 320 million of the total amount that was scheduled to be paid in installments over a period of eight years. However, BPTP, in the midst of a severe liquidity crunch, was unable to make the scheduled payments and had sought and extension of its second payment that was due in September of 2008.

¶12. The Uttar Pradesh government's recent announcement of a new policy that gives developers the option of rescheduling their payment plans and seek the benefit of a moratorium, or surrendering their plots after paying a penalty of ten percent of the amount already paid, couldn't have come at a better time for BPTP. Shortly after the announcement, BPTP applied to the New Okhla Industrial Development Authority (Noida Authority) to surrender its ninety-five acre plot and are currently awaiting a decision. If the application is approved, BPTP will not be able to recover the USD 320 million already paid but will be given alternative land at a square meter rate yet to be determined. While this is the, at one time, most valuable plot of land ever sought to be surrendered in India, it is

unlikely to be the last. According to media reports, the Noida Authority believes more developers in UP may follow in BPTP's footsteps as the market value of land purchased in the last couple of years has decreased so dramatically and the sale and purchase of land in Noida and Greater Noida have almost come to a standstill.

Infosys to cut jobs in the US

¶13. (SBU) Infosys expects to cut nearly five percent of its U.S.-based workforce in the next quarter, a high-level executive told Consulate General Chennai. He noted that the company would look first at those visa-holding employees (i.e., not American citizen employees) in the United States who had completed a project and are awaiting a new assignment. Although the numbers laid off would not be particularly large (Infosys has around 2000 U.S.-based employees), the cost-savings would be significant because these are some of the company's highest-costing workers. In addition, he said that the company would comb through its marketing team to eliminate poor performers. These workers tended to be Indians, he said. He also emphasized that the company is following performance requirements more stringently.

Federal Government Committee Clears West Bengal's Proposal for Chemical Hub Investment
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¶14. (U) On February 2, the federal government's High Powered Committee on Chemicals and Petrochemicals cleared West Bengal's

proposal to set up a Petroleum, Chemical and Petrochemical Investment Region (PCPIR) in East Medinipore district in West Bengal. The project awaits final clearance (considered to be proforma) from the Cabinet Committee on Economic Affairs. The West Bengal relocated the project from Nandigram to the Nayachar Islands after significant civil unrest, where it will be adjacent to existing petrochemical industries and the port of Haldia. A joint venture between West Bengal Industrial Development Corporation, the Indonesia based Salim Group and Delhi based Unitech group will develop the chemical hub and related infrastructure. According to press statements by the West Bengal Industry Secretary, the project's total investment is USD 20 billion and will be supported by the federal government under its PCPIR policy.

¶15. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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